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UNCLAS SECTION 01 OF 03 PORT AU PRINCE 000684

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STATE FOR WHA/CAR
EB/ESC/IEC
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STATE PASS TO AID FOR LAC/CAR
USDOC FOR 4322/ITA/MAN/WH/OLAC/ (SMITH, S.)

E.O. 12958: N/A

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SUBJECT: Haitian Energy Avoiding Political Shock

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1. (SBU) SUMMARY: Haitians view electricity production as a measure the government's effectiveness. Electricity de Haiti (EDH) and the Interim Government of Haiti (IGOH) are having trouble providing power. EDH is beset with problems throughout its production, transmission and commercialization process; it is running a significant deficit. In the short term, the IGOH will support EDH while EDH tries to increase its revenues. However, EDH is aware that in the long term, it must address its network inefficiency and its dependence on diesel. The elections are also fueling concern that if the next government is unable to at least maintain the power supply, its viability may be jeopardized. EDH and the IGOH are considering private management, but not private ownership at this point. Some in the private sector are also interested in privatization. However, EDH's problems are systemic, the transition to private ownership would be difficult. In addition, a private owner might cut power and alienate the poor, on whom the government is dependent for long-term success. END SUMMARY

Electricity and Politics; Hand in Hand in Haiti

2. (U) Haitians use electricity provision as a measure of the ability of the government to govern and provide services. According to EDH general director Harold Morose, consistent power is so politically essential that EDH and the IGOH made special provisions to supply power nearly 24 hours a day during Christmas and Carnival. For the past seven months, on normal days, with USD 23 million from USAID, Electricity de Haiti (EDH) has provided between 12 and 16 hours of electricity per day to some neighborhoods. However, USAID support ended in early March. Morose said that continuing to provide power at current levels through the elections is critical to the IGOH's success. However, EDH claims that with the end of USAID support for EDH, EDH's ability to continue to deliver power at current levels is unclear. Post has observed a reduction in the electricity supplied since USAID support ended. EDH is running a significant financial deficit, and is now dependant on the IGOH for financial support.

EDH: Problems from Top to Bottom

3. (U) EDH is beset with problems throughout its power production, transmission and commercialization process. EDH's problems begin with their power generation, which is largely dependant on contractors running diesel generators. Diesel generation is both expensive and insufficient for the needs of Port-au-Prince.

4. (U) According to EDH Commercial Director Kathleen Wrainright, the situation has caused EDH to give different circuits power at different times of the day. Industrial circuits get power during the day, when factories are in operation, residential circuits get power in the evening, when people are at home, and commercial circuits get power in the day and evening, when businesses are open. Some "priority circuits" that have a mix of at least two types customers are powered as much as possible, however, even they receive only 12 to 16 hours daily.

5. (U) Haiti's antiquated power transmission network and rampant power theft are significant in making EDH a money-losing state-run enterprise. EDH loses 20 percent of its power through old inefficient transformers, and theft accounts for another 37 percent (some believe that the reason illegal power lines are not cut is because corrupt technicians are in the pay of power thieves), leaving 43 percent upon which its billing rests. The result is that EDH cannot cover the cost of its fuel without outside

support, even without considering other expenses such as equipment maintenance and salaries.

EDH Damage Control

16. (U) EDH has undertaken some measures in an attempt to mitigate its deficit. In the short term the IGOH has said it will furnish EDH with USD 5 to 6 million monthly in order to keep the power on in Port-au-Prince. However, this is a band-aid solution.

17. (U) EDH is also searching to increase its revenues through decentralization and community billing. According to Commercial Director Wainright, EDH is attempting to decentralize their revenue collection, service provision and maintenance operations through the creation of local EDH agencies. To address the question of power theft by poor neighborhoods, EDH has started a pilot program in which poor communities currently stealing power are attached to the power grid through a single meter and are billed as a whole through community organizations. Wainright said that their pilot program in Cite de Dieu is working well, and they hope to expand to include more communities that have historically stolen power.

Long Term Raise Efficiency, No Diesel

18. (U) However, EDH is also aware that in the long term, it must address two fundamental problems: its network inefficiency and its dependence on diesel fuel. EDH General Director Morose was adamant that EDH must stop diesel generation as soon as possible. (Note: some believe that the reason that Haiti still uses diesel power is that diesel fuel can easily be stolen and sold, or used in vehicles.) Morose said he believes that given Haiti's lack of technical resources, a nation-wide transmission network needs to be constructed along with a power plant(s) sufficiently large to supply all of Haiti's power needs. He said that he is talking with the Government of Germany about such a proposal, a statement that was later confirmed by a private sector contact.

Beyond the Elections

19. (U) The politics of power in Haiti are also fueling concerns about what will happen after elections at the end of 2005. EDH Director General Morose told Econoff that power would stay on through the elections, but said because EDH is dependant on the IGOH for financial support, he does not know what will happen after the elections. He said that without government support, EDH would be forced to cut back to at most four hours of electricity a day. Should such cuts occur, he doubted that any government would be able to remain in office.

Privatization? It Depends.

10. (U) EDH and the IGOH are considering private management as part of the solution to EDH's woes, but not private ownership anytime soon. According to a source on the Committee for the Modernization of Public Enterprises (CMEP), EDH is currently being audited. By the end of 2005, after the audits are finished, the IGOH plans to tender a management contract as a first step towards privatization. However the IGOH prefers to leave the politically sensitive issue of privatization to an elected government.

11. (SBU) Meanwhile, some in the private sector are interested in privatization. A source with U.S.-owned Alstom Power Rentals said recently that Alstom and some private partners would like to buy EDH. Alstom's idea calls for Alstom and its associates to own 80 percent of EDH and the government of Haiti to retain only 20 percent.

12. (U) Both approaches come as some in the private sector believe EDH to be in a good position to be privatized because of the market it serves, if its problems can be addressed. Director General Morose says that EDH has eliminated its debt to Texaco and Alstom, though Alstom complains that EDH never pays its bills on time. In addition, Alstom believes that EDH would be profitable once its problems are overcome. Nonetheless, privatization could pose political problems, first because a private sector company would cut off power to customers that do not pay, and second because a private sector company would be likely to make significant layoffs as part of the privatization process.

13. (U) COMMENT: Should the IGOH set EDH on the road to privatization, the transition will be fraught with difficulty, particularly in weeding out pervasive corruption. Additionally, despite its commercial and financial woes, EDH and the IGOH keep the power on in part because they fear the political repercussions of turning it off. A private company seeking profit would not share their compunctions. Turning off the power of non-paying customers may serve to alienate the poor, the very people that the government needs to court in order to be a long-term success. END COMMENT.